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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SAM-01 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 /081 W
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TO SECSTATE WASHDC 7275

C O N F I D E N T I A L MADRID 7289

E.O. 11652: GDS
TAGS: EFIN, SP
SUBJECT: SPANISH ECONOMIC SITUATION - CONVERSATION WITH
GOVERNOR OF THE BANK OF SPAIN

1. THE NEW GOVERNOR OF THE BANK OF SPAIN, JOSE MARIA

OPEZ DE LETONA, COMMENTED TO ME MORNING SEPTEMBER 23
ON THE PRESENT ECONOMIC SITUATION DURING THE COURSE
OF A CALL I MADE ON HIM.

2. WHEN I ASKED HIM WHETHER THE RECENT MEASURES
TAKEN BY THE GOVERNMENT WERE HAVING ANY EFFECT, HE
REPLIED THAT IT WAS TOO EARLY TO TELL. WHAT COULE
BE SAID WAS THAT THE YEAR WOULD PROBABLY END WITH A
RATE OF GROWTH OF AROUND THREE PERCENT. THE ECONOMIC
SITUATION WAS UNDENIABLY BAD, WITH BUSINESS HAVING A
LACK OF CONFIDENCE TO MAKE THE NECESSARY INVESTMENTS.
THE PRESENT GOVERNMENT COULD NOT ADOPT THE MEASURES
REALLY NECESSARY TO MEET THE SITUATION, BUT AT THE
SAME TIME IT COULD NOT STAND BY WITH ITS ARMS FOLDED.
FOR THE PRESENT, IT HAD TO BALANCE BETWEEN THE
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AND YET FINDING WAYS TO REACTIVATE

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PRODUCTION. ONLY A GOVERNMENT EMERGING FROM GENERAL
ELECTIONS WOULD BE ABLE TO ADOPT THE FULL RANGE OF THE
MEASURES NEEDED TO COPE WITH SPANISH ECONOMIC PROBLEMS.

3. WHEN QUERIED ABOUT THE POSSIBILITY THAT THE
GOVERNMENT MIGHT SUSPEND COLLECTIVE BARGAINING
NEGOTIATIONS SCHEDULED FOR THIS FALL, LOPEZ DE LETONA
SAID THAT THE GOVERNMENT REALLY HAD VERY LITTLE CHOICE.
THIS MEASURE IS AN ALTERNATIVE BETWEEN A BAD MEASURE
AND ONE WHICH WOULD BE WORSE. THE HEALTH OF BUSINESS
ENTERPRISES IN SPAIN IS ESSENTIAL TO A PROSPEROUS
SPANISH ECONOMY, AND IT IS OUT OF THE QUESTION THAT
THERE CAN BE ANOTHER ROUND OF WAGE INCREASES WHICH
GO WELL BEYOND THE RATE OF INCREASE IN THE COST
OF LIVING. LOPEZ DE LETONA SAID HE WAS FULLY AWARE
THAT THE ANNOUNCEMENT OF THE GOVERNMENT POLICY WOULD
CREATE LABOR AGITATION AND STRIKES, BUT THE SAME WOULD
BE TRUE EVEN IN THE SITUATION OF THE RENEGOTIATIONS OF
CONTRACTS. IT WAS HIS VIEW THAT THE OPPOSITION,
INCLUDING THE YET-ILLEGAL TRADE UNIONS, HAD BEEN
TAKEN BY SURPRISE BY THE GOVERNMENT'S FORTHCOMING
POLITICAL REFORM BILL AND THAT ITS PRINCIPAL RECOURSE
WAS TO LABOR AGITATION UNDER INCREASING COERSIVE
PRESSURES FROM THE COMMUNIST CONTROLLED WORKERS COMMISSIONS.
BUSINESS ENTERPRISES IN SPAIN ARE IN BAD SHAPE, AND NO WAY
HAS YET BEEN DISCOVERED WHEREBY AN ECONOMY CAN BE SUC-
CESSFULLY RUN WITHOUT PRODUCTION AND WITHOUT WORK.
HE MADE VERY CLEAR THAT IN HIS PHILOSOPHY, THE GOVERN-
MENT MUST DO WHATEVER IT CAN TO PREVENT FURTHER
DETERIORATION AMONGST THE BUSINESS ENTERPRISES OF SPAIN.
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